

# **Fiscal Services Division**

## **Legislative Services Agency**

### **Fiscal Note**

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SF 96 – Ethanol (LSB 1447 SS)

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Fiscal Note Version – New

Requested By – Senator Jack Kibbie

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#### **Description**

Senate File 96 makes several changes in the way motor vehicle fuel is taxed. The Bill provides for the following statutory changes:

1. Adds the following definitions for certain motor fuels:
  - High-Emission Gasoline – Mixture of less than 10.0% ethanol
  - E-85 Blended Gasoline – Mixture of 85.0% or more ethanol
2. Prohibits the sale of High-Emission Gasoline except for limited purposes.
3. Institutes the following tax rates:
  - High-Emission Gasoline: 30.0 cents per gallon
  - Conventional Blend Gasoline: 20.0 cents per gallon
  - High Blend Gasoline: 20.0 cents per gallon
  - Until June 30, 2010: E-85 Gasoline: 0.0 cents per gallon
  - On and after July 1, 2010: E-85 Gasoline: 20.0 cents per gallon
4. Provides a 10-cent per gallon income tax credit for retailers that sell E-85 fuel.
5. Repeals the tax changes enacted in HF 716 (during the 2001 Legislative Session), which created a 2.5-cent per gallon income tax credit for ethanol and changed the gasoline and ethanol excise taxes based on fuel sales.
6. The Bill takes effect on January 1, 2006, except for the provisions pertaining to the E-85 income tax credit, which are effective retroactively to July 1, 2005, and apply to tax years beginning on or after January 1, 2005.

#### **Background**

1. In FY 2004, the total amount of ethanol and gasoline consumed was 1.617 billion gallons, of which 1.027 billion was ethanol and 589.4 million was gasoline.
2. Much of federal highway funding distributed to states is based on the amount of federal gas tax remitted to the Federal Highway Trust Fund. Prior to January 1, 2005, the federal tax on ethanol was 5.2 cents per gallon less than regular gasoline. As a result, an increase in Iowa's consumption of ethanol decreased the amount of federal highway funds that Iowa received. On January 1, 2005, the 5.2-cent federal tax exemption on ethanol was eliminated. In addition, a 2.5-cent deficit reduction that was previously retained in the General Fund was transferred to the Federal Highway Trust Fund (the transfer was retroactive to FFY 2004). As a result, Iowa's federal fund allotment will not be affected by an increase in the sale of ethanol-blended fuel.
3. Road Use Tax Fund revenues in the first half of FY 2006 will not be affected by the proposed legislation. The second half of FY 2006 and all of FY 2007 and beyond will be affected.

#### **Assumptions**

1. This analysis assumes a 2.5% increase in the total gallons of gasoline and ethanol sold annually, and a 66.0% market share of ethanol in FY 2005. Beyond FY 2005, the market share is estimated to increase 2.0% each year, until FY 2009 when the market share reaches 74.0% and remains constant through subsequent fiscal years.

2. The amount of High-Emission Gasoline that will be consumed for the limited purposes specified in Section 6 of the Bill is unknown. This analysis assumes that 2.0% of the total gasoline and ethanol consumed is for these purposes.
3. The amount of E-85 fuel consumed in CY 2003 was an estimated 82,000 gallons. This analysis assumes a 15.0% increase in the annual consumption of E-85 fuel.

### **Fiscal Impact**

Senate File 96 will have the following estimated fiscal impacts:

#### **Road Use Tax Fund**

- An increase in motor vehicle fuel tax revenue to the Road Use Tax Fund as follows:
  - FY 2006 (second half) – \$5.6 million
  - FY 2007 – \$13.1 million
  - FY 2008 – \$14.0 million
- The estimated decrease in revenues to the Road Use Tax Fund due to the elimination of the excise tax on E-85 fuel through FY 2010 is anticipated to be minimal. The estimated increase in revenues to the Road Use Tax Fund due to the 20-cent excise tax on E-85 fuel in FY 2011 and beyond is anticipated to be minimal.

#### **General Fund**

- The estimated decrease in revenues to the General Fund for the 10-cent per gallon income tax credit on E-85 fuel is anticipated to be minimal.
- An estimated increase in revenues to the General Fund in the following amounts due to the repeal of the tax changes enacted in HF 716 (during the 2001 Legislative Session):
  - FY 2006 – \$3.6 million
  - FY 2007 – \$4.8 million
  - FY 2008 – \$6.1 million

#### **Federal Funds**

There will be no fiscal impact on Iowa's allotment of federal highway funds.

### **Correctional Impact**

The correctional impact of SF 96 cannot be determined as the number of persons who will violate the provisions of the Bill is unknown.

### **Sources**

Department of Transportation  
Department of Revenue (Monthly Fuel Tax Reports)

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March 8, 2005

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

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